

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK
RATIONALIZATION SERVICE CHANGES, 2012

Docket No. N2012-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO APWU INTERROGATORIES APWU/USPS-T10-1 THROUGH 5**
(February 2, 2012)

The United States Postal Service hereby provides the responses of witness Michael Bradley to the above-listed interrogatories of the American Postal Workers Union. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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APWU/USPS-T10-1

Table 16 summarizes the \$2.6 billion in annual savings that the Postal Service expects to gain from this initiative.

- a) Please confirm that almost 40 percent of those savings (\$964 million) come from your calculation of productivity gains from mail processing labor.
- b) Please confirm that the productivity savings are valued at FY2010 labor rates.
- c) Please confirm that this valuation of mail processing labor savings does not incorporate the labor flexibilities that were agreed to in the APWU 2010 contract.

RESPONSE:

- (a) Confirmed. I calculate the cost savings from productivity gains to be 37.5 percent of the total cost savings.
- (b) Confirmed.
- (c) I am not familiar with the provisions of the APWU 2010 contract and did not need to become so familiarized for my testimony. As demonstrated in the various equations in my testimony, I estimate the cost savings associated with the productivity gains and other operational changes described by witness Neri. Because I use the Postal Regulatory Commission's FY 2010 Annual Compliance Determination for the baseline for calculating costs, I use the FY 2010 valuation of labor. As I indicated on page 5 of my testimony:

The baseline for calculating cost changes is the Postal Regulatory Commission's Mail Processing Cost Pools for MODS offices excluding Network Distribution Centers (NDCs) and International Service Centers (ISCs) for FY 2010.

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Moreover, please keep in mind that, as both the Postal Service and the Postal Regulatory Commission did in Docket No. N2010-1, I am estimating the cost savings associated with the realigned network being up and running:¹

They are the “full up” costs savings in the sense they are derived from comparing the cost of handling FY 2010 volume in the existing mail processing and transportation networks with the cost of handling the same volume in the reconfigured mail processing and transportation networks. As such, they do not include any transition or implementation costs.

¹ See Direct Testimony Michael D. Bradley on Behalf of the United States Postal Service (USPS-T-10), Docket No. N2012-1 (Dec. 5, 2011), at 39.

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APWU/USPS-T10-2

Mr. Neri describes the productivity opportunities as “gained through balancing of the processing profile” and elimination of redundant processes as the number of facilities is reduced. Would you agree that

- a) Your estimates of productivity gains are dependent on the removal of all mail processing operations from all of the locations scheduled for review?
- b) Your estimates of productivity gains are dependent on the lengthening of processing windows at all the remaining facilities in order to balance the processing profile?

RESPONSE:

- (a) I do not estimate any productivity gains. I estimate the cost savings associated with the productivity gains and other operational changes described by witness Neri. One of the operational changes Witness Neri describes is a reduction in the number of mail processing facilities, resulting in the transfer of those facilities’ workload to other facilities.² I calculate the cost savings associated with this operational change in Section II A (starting at page 5) of my testimony.
- (b) I do not estimate any productivity gains. I estimate the cost savings associated with the productivity gains and other operational changes described by witness Neri. My understanding is that witness Neri’s testimony explains that lengthening the processing windows at the facilities remaining active will lead to productivity increases in mail processing operations at those facilities. To the extent his estimates of productivity gains in those facilities depend upon a longer processing window, my estimates of cost savings also do.

² See Direct Testimony Frank Neri on Behalf of the United States Postal Service (USPS-T-4), Docket No. N2012-1 (Dec. 5, 2011), at 19.

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APWU/USPS-T10-3

You state that the productivity gains “are largest in the automated letter operations, which are most subject to service standard constraints, and smallest in manual operations, where the longer operating windows do not generate as much productivity gain.” To what extent are manual operations determined by the existence of mail pieces that must meet their service standards but have missed their processing window (especially for DPS)?

RESPONSE:

As discussed in my response to APWU/USPS-T10-2, it is my understanding that Mr. Neri’s estimates of productivity gains are explained in large part by the benefits of longer operating windows. Thus, it is logical conclude that those operations which will have the largest productivity gains are the operations that are most likely to benefit from the longer operating windows. I am not aware of the extent that manual operations are determined by the existence of mail pieces that must meet their service standards but have missed their processing window (especially for DPS) nor did I need to become so aware to prepare my testimony.

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APWU/USPS-T10-4

In calculating net labor savings, do you incorporate frictional costs that result from displaced labor being redeployed to jobs that are below their current skill and training levels?

RESPONSE:

Frictional costs, also known as transactions costs, refer to the costs associated with accomplishing a transaction. For example, the frictional costs of acquiring a financial asset include things like the broker's commissions and the investor's research time. Because I am estimating the full up cost savings associated with the realigned network, I do not estimate any such transition or implementation costs.

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APWU/USPS-T10-5

You are estimating productivity savings using factors estimated by Mr. Neri. How would these productivity savings be captured in the Handbook PO 408 AMP process?

RESPONSE:

I am not familiar with Handbook PO 408 nor did I need to become familiar with it for the purpose of my testimony. As the question points out, I estimated the cost savings associated with the productivity gains estimated by Mr. Neri.